

CITY OF EARLHAM
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2016

Table of Contents

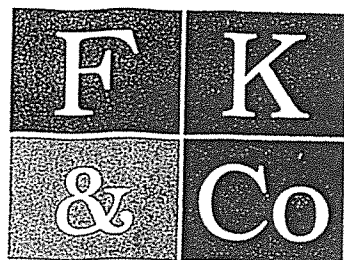
	<u>Page</u>
Officials	3
Independent Auditor's Report	5-7
Management's Discussion and Analysis	8-13
Basic Financial Statements:	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A 15
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 16
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 17
Fiduciary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 18
Notes to Financial Statements	19-28
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	30
Notes to Other Information - Budgetary Reporting	31
Schedule of City's Proportionate Share of the Net Pension Liability	32
Schedule of City Contributions	33
Notes to Other Information - Pension Liability	34
Supplementary Information:	
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 36
Schedule of Indebtedness	2 37
Bond and Note Maturities	3 38
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	39-40
Schedule of Findings	41-46

City of Earlham

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2016)		
Dusky Terry	Mayor	January 1, 2016
Jeff Lillie	Council Member	January 1, 2016
Jamie Royster	Council Member	January 1, 2018
Scott Petersen	Council Member	January 1, 2018
Schris Swalla	Council Member	January 1, 2018
Heather Stancil	Council Member	January 1, 2016
Mary Sue Hibbs	City Clerk	January 1, 2016
Sam Braland	Attorney	January 1, 2016
(After January 2016)		
Jeff Lillie	Mayor	January 1, 2018
Adam Griswold	Council Member	January 1, 2020
Jamie Royster	Council Member	January 1, 2018
Scott Petersen	Council Member	January 1, 2018
Chris Swalla	Council Member	January 1, 2018
Brock Fredericksen	Council Member	January 1, 2020
Mary Sue Hibbs	City Clerk	January 1, 2018
Sam Braland	Attorney	January 1, 2018

City of Earlham



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Earlham, Iowa, (City) as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2015.

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and the cash basis balances of the aggregate discretely presented component units has not been determined.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2016, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2015, as discussed in the "Basis for Modified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

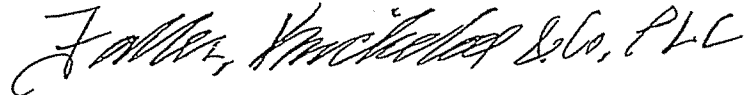
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 13 and 30 through 34 has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
January 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Earlham (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2016 FINANCIAL HIGHLIGHTS

- The cash basis net position of the City's governmental activities increased approximately \$214,000 during the fiscal year.
- The cash basis net position of the City's business type activities decreased approximately \$332,000 during the fiscal year, primarily due to disbursements exceeding receipts in the Enterprise, Sewer Fund.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position present the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water system, the sanitary sewer system and the community center. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Local Option Sales Tax funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information including the Enterprise, Water Fund and the Enterprise, Sewer Fund, considered to be major funds of the City. The Enterprise, Community Center Fund is considered to be a non-major fund of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

3) Fiduciary Funds account for resources held for others. The Fiduciary Fund consists of the Agency Fund. The Agency Fund accounts for the Stella Hoadley Library Trust Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$513,697 to \$728,287. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)	
---	--

	Year ended June 30, 2016
Receipts:	
Program receipts:	
Charges for service	\$ 191
Operating grants, contributions and restricted interest	279
Capital grants, contributions and restricted interest	157
General receipts:	
Property tax	467
Tax increment financing	139
Local option sales tax	119
Commercial/industrial tax replacement	10
Unrestricted interest on investments	2
Miscellaneous	11
Total receipts	<u>1,375</u>
Disbursements:	
Public safety	190
Public works	390
Culture and recreation	204
Community and economic development	31
General government	111
Debt service	313
Capital projects	156
Total disbursements	<u>1,395</u>
Change in cash basis net position before transfers	(20)
Transfers, net	<u>234</u>
Change in cash basis net position	214
Cash basis net position beginning of year	<u>514</u>
Cash basis net position end of year	<u>\$ 728</u>

Total business type activities cash basis net position decreased approximately \$332,000 from a year ago, from \$681,714 to \$350,207.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)	
	Year ended June 30, 2016
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 275
Sewer	212
Community Center	21
Capital grants, contributions and restricted interest	126
General receipts:	
Unrestricted interest on investments	1
Miscellaneous	11
Total receipts	<u>646</u>
Disbursements:	
Water	508
Sewer	205
Community Center	31
Total disbursements	<u>744</u>
Change in cash basis net position before transfers	(98)
Transfers, net	<u>(234)</u>
Change in cash basis net position	(332)
Cash basis net position beginning of year	<u>682</u>
Cash basis net position end of year	<u>\$ 350</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$728,287, an increase of \$214,590 above last year's total of \$513,697. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased by \$32,608 from the prior year to \$370,915. The City is attempting to keep the cash balance in this fund relatively stable from year to year.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$96,252 from the prior year to \$44,708. This decrease can be attributed to the purchase of street equipment and additional street work performed in fiscal year 2016.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased by \$43,992 during the fiscal year to a total of \$193,329. This increase is just due to the City receiving more in this fund than the related disbursements from this fund.
- The Special Revenue, Tax Increment Financing Fund cash balance increased by \$3,245 during the fiscal year, to a total of \$0. Generally the balance in this fund should be \$0 at the end of the fiscal year because the City only requests monies equal to the planned disbursements from this fund.

- The Debt Service Fund cash balance increased by \$153,838 from the prior year to (\$41,751). The City continues to run a deficit balance in this fund. The City uses all of the debt service tax levy to pay on general obligation debt.
- The Capital Projects Fund cash balance increased by \$66,221 from the prior year to (\$28,125). The City continues to run a deficit balance in this fund.
- The Permanent, Cemetery Perpetual Care Fund cash balance increased by \$53,912 during the fiscal year to a total of \$143,059 at June 30, 2016. The only activity in this fund consists of perpetual care receipts and bank interest income.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased by \$131,014 to \$268,982, just due to spending more from this fund than received in fiscal year 2016. A total of \$280,387 was spent on capital projects in fiscal year 2016 in this fund.
- The Enterprise, Sewer Fund cash balance decreased by \$203,527 to \$79,385, just due to spending more from this fund than received in fiscal year 2016. A total of \$98,916 was spent on capital projects in fiscal year 2016 in this fund.

BUDGETARY HIGHLIGHTS

During the course of the year, the City amended its budget one time. The amendment was adopted to more closely reflect anticipated receipts and disbursements for the fiscal year.

The City's receipts were \$36,497 less than budgeted, primarily due to less charges for service receipts compared to the amount budgeted for this category.

Total disbursements were \$256,728 less than the budget. Actual disbursements for community and economic development and business type activities were \$180,511 and \$89,645 respectively, less than the budget.

Even though the City did not go over budget in total, disbursements in the capital project function was \$156,111 in excess of the budget amount.

DEBT ADMINISTRATION

At June 30, 2016, the City had \$1,861,000 in bonds and notes outstanding, compared to \$2,197,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2016	2015
General obligation bonds and notes	\$ 966	1,262
Revenue bonds	895	935
Total	\$ 1,861	2,197

Debt decreased as a result of the scheduled pay off of existing debt.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The City's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2014	\$ 70,890,891
Debt Limit	<u>5%</u>
	<u>\$ 3,544,545</u>

The City's outstanding general obligation debt of \$966,000 is significantly below the constitutional debt limit of \$3,544,545

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates, and fees that will be charged for various City activities.

The fiscal year 2017 budget contains total receipts of \$2,043,145 and disbursements of \$2,401,555, compared to the fiscal year 2016 amended budget which contained total receipts of \$2,057,265 and amended disbursements of \$2,394,413.

The fiscal year 2017 property tax levy is \$12.53219 per \$1,000 of taxable valuation, an increase from \$12.00064 per \$1,000 of taxable valuation for fiscal year 2016.

These parameters were taken into account when adopting the budget for fiscal year 2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayer, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Sue Hibbs, City Clerk, P.O. Box 518, Earlham, Iowa 50072.

Basic Financial Statements

City of Earlham
Cash Basis Statement of Activities and Net Position

Exhibit A

As of and for the year ended June 30, 2016

Functions / Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government		
					Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 190,149	5,326	53,965	-	(130,858)	-	(130,858)
Public works	389,618	141,919	179,190	-	(68,509)	-	(68,509)
Culture and recreation	203,635	36,012	45,470	-	(122,153)	-	(122,153)
Community and economic development	30,400	-	-	-	(30,400)	-	(30,400)
General government	111,248	7,809	-	-	(103,439)	-	(103,439)
Debt service	312,840	-	-	-	(312,840)	-	(312,840)
Capital projects	156,111	-	-	156,711	600	-	600
Total governmental activities	1,394,001	191,066	278,625	156,711	(767,599)	-	(767,599)
Business type activities:							
Water	507,403	274,933	-	125,950	-	(106,520)	(106,520)
Sewer	205,398	212,266	-	-	-	6,868	6,868
Community Center	30,883	21,378	-	-	-	(9,505)	(9,505)
Total business type activities	743,684	508,577	-	125,950	-	(109,157)	(109,157)
Total	\$ 2,137,685	699,643	278,625	282,661	(767,599)	(109,157)	(876,756)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					466,424	-	466,424
Debt service					658	-	658
Tax increment financing					139,153	-	139,153
Local option sales tax					119,273	-	119,273
Commercial/industrial tax replacement					9,719	-	9,719
Unrestricted interest on investments					1,727	860	2,587
Rent income					400	-	400
Miscellaneous					10,640	10,985	21,625
Transfers					234,195	(234,195)	-
Total general receipts and transfers					982,189	(222,350)	759,839
Change in cash basis net position					214,590	(331,507)	(116,917)
Cash basis net position beginning of year					513,697	681,714	1,195,411
Cash basis net position end of year					\$ 728,287	350,207	1,078,494
Cash Basis Net Position							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 143,059	-	143,059
Expendable:							
Streets					44,708	-	44,708
Local option sales tax					193,329	-	193,329
Debt service					-	69,823	69,823
Insurance					8,459	-	8,459
Museum					6,769	-	6,769
Other purposes					46,152	62,390	108,542
Unrestricted					285,811	217,994	503,805
Total cash basis net position					\$ 728,287	350,207	1,078,494

See notes to financial statements.

City of Earlham

Exhibit B

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2016

	General	Special Revenue			Debt Service	Capital Projects	Permanent Cemetery Perpetual Care	Nonmajor	Total
		Road Use Tax	Local Option Sales Tax	Tax Increment Financing					
Receipts:									
Property tax	\$ 374,355	-	-	-	658	-	-	92,068	467,081
Tax increment financing	-	-	-	139,153	-	-	-	-	139,153
Other city tax	-	-	119,273	-	-	-	-	-	119,273
Licenses and permits	3,671	-	-	-	-	-	-	350	4,021
Use of money and property	2,127	-	-	-	-	-	-	9,300	11,427
Intergovernmental	83,035	179,190	-	-	-	156,711	-	1,932	420,868
Charges for service	158,046	-	-	-	-	-	-	-	158,046
Miscellaneous	54,103	-	-	-	-	-	424	-	54,527
Total receipts	675,337	179,190	119,273	139,153	658	156,711	424	103,650	1,374,396
Disbursements:									
Operating:									
Public safety	157,877	-	-	-	-	-	-	32,272	190,149
Public works	160,008	212,970	-	-	-	-	-	16,640	389,618
Culture and recreation	183,737	-	-	-	-	-	-	19,898	203,635
Community and economic development	20,840	-	9,560	-	-	-	-	-	30,400
General government	98,650	-	-	-	-	-	-	12,598	111,248
Debt service	-	-	-	-	312,840	-	-	-	312,840
Capital projects	-	-	-	-	-	156,111	-	-	156,111
Total disbursements	621,112	212,970	9,560	-	312,840	156,111	-	81,408	1,394,001
Excess (deficiency) of receipts over (under) disbursements	54,225	(33,780)	109,713	139,153	(312,182)	600	424	22,242	(19,605)
Other financing sources (uses):									
Transfers in	-	-	14,900	-	466,020	65,621	53,488	-	600,029
Transfers out	(86,833)	(62,472)	(80,621)	(135,908)	-	-	-	-	(365,834)
Total other financing sources (uses)	(86,833)	(62,472)	(65,721)	(135,908)	466,020	65,621	53,488	-	234,195
Change in cash balances	(32,608)	(96,252)	43,992	3,245	153,838	66,221	53,912	22,242	214,590
Cash balances beginning of year	403,523	140,960	149,337	(3,245)	(195,589)	(94,346)	89,147	23,910	513,697
Cash balances end of year	\$ 370,915	44,708	193,329	-	(41,751)	(28,125)	143,059	46,152	728,287
Cash Basis Fund Balances									
Nonspendable - Cemetery perpetual care	\$ -	-	-	-	-	-	143,059	-	143,059
Restricted for:									
Streets	-	44,708	-	-	-	-	-	-	44,708
Local option sales tax	-	-	193,329	-	-	-	-	-	193,329
Insurance	8,459	-	-	-	-	-	-	-	8,459
Museum	6,769	-	-	-	-	-	-	-	6,769
Other purposes	-	-	-	-	-	-	-	46,152	46,152
Unassigned	355,687	-	-	-	(41,751)	(28,125)	-	-	285,811
Total cash basis fund balances	\$ 370,915	44,708	193,329	-	(41,751)	(28,125)	143,059	46,152	728,287

See notes to financial statements.

City of Earlham

Exhibit C

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2016

	Enterprise			
	Water	Sewer	Nonmajor - Community Center	Total
Operating receipts:				
Use of money and property	\$ 471	389	21,378	22,238
Charges for service	274,933	212,266	-	487,199
Total operating receipts	275,404	212,655	21,378	509,437
Operating disbursements:				
Business type activities	161,151	106,482	30,883	298,516
Total operating disbursements	161,151	106,482	30,883	298,516
Excess (deficiency) of operating receipts over (under) operating disbursements	114,253	106,173	(9,505)	210,921
Non-operating receipts (disbursements):				
Intergovernmental	125,950	-	-	125,950
Miscellaneous	3,540	2,706	4,739	10,985
Debt service	(65,865)	-	-	(65,865)
Capital projects	(280,387)	(98,916)	-	(379,303)
Net non-operating receipts (disbursements)	(216,762)	(96,210)	4,739	(308,233)
Excess (deficiency) of receipts over (under) disbursements	(102,509)	9,963	(4,766)	(97,312)
Other financing sources (uses):				
Transfers in	635	-	7,800	8,435
Transfers out	(29,140)	(213,490)	-	(242,630)
Total other financing sources (uses)	(28,505)	(213,490)	7,800	(234,195)
Change in cash balances	(131,014)	(203,527)	3,034	(331,507)
Cash balances beginning of year	399,996	282,912	(1,194)	681,714
Cash balances end of year	\$ 268,982	79,385	1,840	350,207
Cash Basis Fund Balances				
Restricted for debt service	\$ 69,823	-	-	69,823
Restricted for customer deposits	46,951	15,439	-	62,390
Unrestricted	152,208	63,946	1,840	217,994
Total cash basis fund balances	\$ 268,982	79,385	1,840	350,207

See notes to financial statements.

City of Earlham

Exhibit D

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Fiduciary Fund

As of and for the year ended June 30, 2016

	<u>Agency</u>
Additions:	
Interest, dividends and unrealized gains	<u>\$ 127,236</u>
Total additions	<u>127,236</u>
Deductions:	
Safety deposit box	56
Legal fees	135
Distributions	<u>7,826</u>
Total deductions	<u>8,017</u>
Change in cash and investment balances	119,219
Cash and investment balances beginning of year	<u>626,444</u>
Cash and investment balances end of year	<u><u>\$ 745,663</u></u>
See notes to financial statements.	

City of Earlham
Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Earlham (City) is a political subdivision of the State of Iowa located in Madison County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general governmental services. The City also provides water, sewer and a community center for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Except as noted, these financial statements present the City (the primary government) and its blended component unit. The component unit discussed below is included in the City's reporting entity.

Component Unit

The Stella Hoadley Library Trust is included as a fiduciary fund of the City, as the City Library Board of Trustee members are also the trustees of this trust.

The component units discussed below are not included in the City's reporting entity although their operational or financial relationships with the City are significant.

Excluded Component Units

The Earlham Volunteer Fire and Rescue Association, Inc. was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Earlham Volunteer Fire and Rescue Association, Inc. is to support the activities of the Earlham, Iowa fire department.

The Friends of Earlham Public Library was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Friends of Earlham Public Library is to support the activities of the Earlham, Iowa public library.

The Earlham Community Center, Inc. was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Earlham Community Center, Inc. is to support the activities of the Earlham, Iowa community center.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Madison County Assessor's Conference Board, Madison County Emergency Management Commission, Madison County Joint E911 Service Board, Madison County Community Foundation and the Central Iowa Housing Authority.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax collections to be used for capital improvement projects as determined by the City Council.

The Urban Renewal Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The Cemetery Perpetual Care Fund is utilized to account for resources that are legally restricted to where only the earnings, and not the principal, may be used for purposes of maintaining the City's cemetery.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

Additionally, the City reports a fiduciary fund to account for assets held by the City Library as a trustee for the Stella Hoadley Library Trust.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the capital projects function.

(2) **Cash, Pooled Investments and Investments**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2016, the agency fund, the Stella Hoadley Library Trust owned common stock with a fair value of \$408,409. It is unknown what the carrying amount of the common stock was at June 30, 2016. In addition, the common stock has no maturity date.

The City uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The recurring fair value of the common stock was determined using quoted market prices. (Level 1 inputs)

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and notes, and the revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 295,000	12,119	40,000	24,925	335,000	37,044
2018	242,000	9,613	40,000	24,285	282,000	33,898
2019	209,000	6,808	40,000	23,645	249,000	30,453
2020	85,000	4,060	40,000	23,005	125,000	27,065
2021	85,000	2,700	45,000	22,145	130,000	24,845
2022-2026	50,000	1,000	235,000	94,730	285,000	95,730
2027-2031	-	-	270,000	59,138	270,000	59,138
2032-2034	-	-	185,000	13,125	185,000	13,125
	<u>\$ 966,000</u>	<u>36,300</u>	<u>895,000</u>	<u>284,998</u>	<u>1,861,000</u>	<u>321,298</u>

Water Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,055,000 of water revenue bonds issued in May 2012. Proceeds from the notes were used to pay off the loan from Warren Water District. The bonds are payable solely from water customer net receipts and are payable through 2034. Annual principal and interest payments on the bonds are expected to require less than 58% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,179,998. For the current year, principal and interest paid and total customer net receipts were \$65,865 and \$114,253, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) The City shall provide for the collection of rates sufficient to pay the expenses of the utility and to leave a balance of net revenues equal to at least 110% of the principal and interest due in the fiscal year.
- (d) The City shall maintain \$68,935 in a water reserve fund.
- (e) All users of the system, including the City, shall pay for usage.

The City did not properly fund a separate water revenue bond sinking account as required. The balance in the water reserve fund was deficient at June 30, 2016.

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the City contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.56% of pay and the City contributed 9.84% for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$28,121.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$134,011 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0027125%, which was an increase of 0.000372% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows and deferred inflows totaled \$15,199, \$37,596 and \$50,618, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.

Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28 %	2.04 %
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 286,251	134,011	5,577

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) **Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 7 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Premium amounts for retirees under age 65 are based on the employees' age.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums are based on each employee's age. For the year ended June 30, 2016, the City contributed \$52,310 and plan members eligible for benefits contributed \$20,910 to the plan.

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused paid time off hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for compensated absences payable to employees at June 30, 2016 primarily relating to the General Fund, was \$23,395. The liability has been computed based on rates of pay in effect at June 30, 2016.

(7) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Local Option Sales Tax	Special Revenue Road Use Tax	\$ 14,900
Debt Service	General	24,910
	Special Revenue: Road Use Tax	47,572
	Local Option Sales Tax	15,000
	Tax Increment Financing	135,908
	Enterprise: Water	29,140
	Sewer	213,490
		<u>466,020</u>
Capital Projects	Special Revenue: Local Option Sales Tax	<u>65,621</u>
Permanent: Cemetery Prepetual Care	General	<u>53,488</u>
Enterprise: Water	General	<u>635</u>
Enterprise: Community Center	General	<u>7,800</u>
Total		<u>\$ 608,464</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$22,436 during the year ended June 30, 2016.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Fund Balances

The Debt Service and the Capital Projects Fund had deficit balances of \$41,751 and \$28,125, respectively, at June 30, 2016.

The Debt Service Fund deficit was the result of insufficient transfers made to this fund in prior years.

The Capital Projects Fund deficit balance was the result of project costs incurred many years ago without a source of funding available to pay for the projects.

It is uncertain how the City will eliminate the deficits in the above funds.

(11) Water Purchase Contract

The City agreed to a forty year purchase agreement with Warren Water District in 2000. As part of this forty year agreement, the City agreed to purchase no more than 345,000 gallons of water per day.

Currently, the City buys all of its water for resale from Warren Water District. The total cost of water purchased was \$70,486 during the year ended June 30, 2016. The City does not have the capability to produce its own water for resale. It appears the only source of water available to the City is from Warren Water District.

(12) Agreements

The City entered into an agreement with a solid waste disposal company to provide solid waste disposal services for the City and its residents. The agreement began on October 1, 2012, and continues for five years; however, the City can cancel the agreement with two months written notice. The total amount paid by the City to the solid waste disposal company in fiscal year 2016 was \$136,160.

(13) Contingencies

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

The City of Earlham Public Library Board of Trustees is the trustee for the Stella Hoadley Library Trust (Trust). The Trust has not filed income tax returns with the Internal Revenue Service in several years. At the present time, the outcome of these matters are uncertain and the amount of potential liability, if any, cannot be reasonably estimated.

(14) Subsequent Events

The City has evaluated all subsequent events through January 27, 2017, the date the financial statements were available to be issued.

(15) New Accounting Pronouncement

The City adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

City of Earlham

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 467,081	-	467,081	447,510	447,510	19,571
Tax increment financing	139,153	-	139,153	167,767	167,767	(28,614)
Other city tax	119,273	-	119,273	105,227	105,227	14,046
Licenses and permits	4,021	-	4,021	4,105	4,105	(84)
Use of money and property	11,427	22,238	33,665	27,950	27,950	5,715
Intergovernmental	420,868	125,950	546,818	407,109	563,820	(17,002)
Charges for service	158,046	487,199	645,245	713,900	713,900	(68,655)
Miscellaneous	54,527	10,985	65,512	3,890	26,986	38,526
Total receipts	1,374,396	646,372	2,020,768	1,877,458	2,057,265	(36,497)
Disbursements:						
Public safety	190,149	-	190,149	241,701	241,701	51,552
Public works	389,618	-	389,618	376,254	453,662	64,044
Culture and recreation	203,635	-	203,635	223,773	223,773	20,138
Community and economic development	30,400	-	30,400	39,800	210,911	180,511
General government	111,248	-	111,248	118,195	118,195	6,947
Debt service	312,840	-	312,840	312,842	312,842	2
Capital projects	156,111	-	156,111	-	-	(156,111)
Business type activities	-	743,684	743,684	698,354	833,329	89,645
Total disbursements	1,394,001	743,684	2,137,685	2,010,919	2,394,413	256,728
Excess (deficiency) of receipts over (under) disbursements	(19,605)	(97,312)	(116,917)	(133,461)	(337,148)	220,231
Other financing sources, net	234,195	(234,195)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	214,590	(331,507)	(116,917)	(133,461)	(337,148)	220,231
Balances beginning of year	513,697	681,714	1,195,411	757,937	757,937	437,474
Balances end of year	\$ 728,287	350,207	1,078,494	624,476	420,789	657,705

See accompanying independent auditor's report.

City of Earlham

Notes to Other Information - Budgetary Reporting

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$383,494. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the capital projects function.

City of Earlham

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Other Information

	2016	2015
City's proportion of the net pension liability	0.002713%	0.002340%
City's proportionate share of the net pension liability	\$ 134	93
City's covered employee payroll	\$ 285	272
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	47.02%	34.19%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Earlham

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Three Years*
(In Thousands)

Other Information

	2016	2015	2014
Statutorily required contribution	\$ 28	26	25
Contributions in relation to the statutorily required contribution	(28)	(26)	(25)
Contribution deficiency (excess)	\$ -	-	-
City's covered-employee payroll	\$ 306	285	272
Contributions as a percentage of covered-employee payroll	9.15%	9.12%	9.19%

* - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is readily available.

See accompanying independent auditor's report.

City of Earlham

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

City of Earlham

Schedule 1

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2016

	Special Revenue		
	Employee		
	Benefits	Gendler Park	Total
Receipts:			
Property tax	\$ 92,068	-	92,068
Licenses and permits	-	350	350
Use of money and property	-	9,300	9,300
Intergovernmental	1,932	-	1,932
Total receipts	94,000	9,650	103,650
Disbursements:			
Operating:			
Public safety	32,272	-	32,272
Public works	16,640	-	16,640
Culture and recreation	16,706	3,192	19,898
General government	12,598	-	12,598
Total disbursements	78,216	3,192	81,408
Change in cash balances	15,784	6,458	22,242
Cash balances beginning of year	(80)	23,990	23,910
Cash balances end of year	\$ 15,704	30,448	46,152
Cash Basis Fund Balances			
Restricted for other purposes	\$ 15,704	30,448	46,152
Total cash basis fund balances	\$ 15,704	30,448	46,152

See accompanying independent auditor's report.

City of Earlham

Schedule of Indebtedness

Schedule 2

Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Bonds and Notes:									
General Obligation Refunding Bonds	May 31, 2012	0.45-2.00%	\$ 1,135,000	665,000	-	120,000	545,000	9,140	-
Corporate Purpose and Refunding Note	July 16, 2014	1.00-1.50%	650,000	597,000	-	176,000	421,000	7,200	-
Total				\$1,262,000	-	296,000	966,000	16,340	-
Revenue Bonds:									
Water Revenue	May 31, 2012	1.10-3.50%	\$ 1,055,000	935,000	-	40,000	895,000	25,365	-

See accompanying independent auditor's report.

City of Earlham

Schedule 3

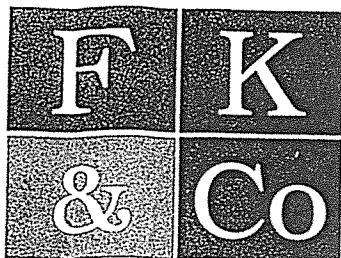
Bond and Note Maturities

June 30, 2016

General Obligation Bonds and Notes						
Year Ending June 30,	Refunding Bonds		Corporate Purpose and Refunding Note		Total	
	Issued May 31, 2012		Issued July 16, 2014			
	Interest		Interest			
	Rates	Amount	Rates	Amount		
2017	1.00%	\$ 120,000	1.00%	\$ 175,000	\$ 295,000	
2018	1.20%	120,000	1.50%	122,000	242,000	
2019	1.60%	85,000	1.50%	124,000	209,000	
2020	1.60%	85,000	-	-	85,000	
2021	2.00%	85,000	-	-	85,000	
2022	2.00%	50,000	-	-	50,000	
		<u>\$ 545,000</u>		<u>\$ 421,000</u>	<u>966,000</u>	

Revenue Bonds			
Year Ending June 30,	Water Revenue		Total
	Issued May 31, 2012		
	Interest Rates	Amount	
2017	1.60%	\$ 40,000	40,000
2018	1.60%	40,000	40,000
2019	1.60%	40,000	40,000
2020	2.15%	40,000	40,000
2021	2.15%	45,000	45,000
2022	2.15%	45,000	45,000
2023	2.65%	45,000	45,000
2024	2.65%	45,000	45,000
2025	2.65%	50,000	50,000
2026	3.00%	50,000	50,000
2027	3.00%	50,000	50,000
2028	3.00%	50,000	50,000
2029	3.25%	55,000	55,000
2030	3.25%	55,000	55,000
2031	3.25%	60,000	60,000
2032	3.50%	60,000	60,000
2033	3.50%	60,000	60,000
2034	3.50%	65,000	65,000
		<u>\$ 895,000</u>	<u>895,000</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Earlham, Iowa (City) as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 27, 2017. Our report expressed modified opinions on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2015. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the Earlham Volunteer Fire and Rescue Association, Inc., the Friends of Earlham Public Library and the Earlham Community Center, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B) and (C) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

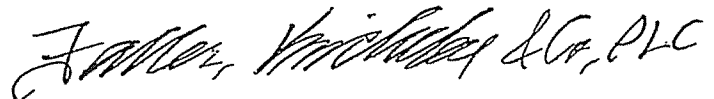
City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
January 27, 2017

City of Earlham

Schedule of Findings

Year ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one full-time individual and one part-time individual are involved in the accounting duties of the City of Earlham, (City) there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

(B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including note disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirement.

Conclusion – Response acknowledged.

City of Earlham

Schedule of Findings

Year ended June 30, 2016

- (C) Chart of Accounts/Adjustments - The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments recommended by the City Finance Committee on July 8, 2015. As a result, material adjustments were made to the accounting records in order to properly classify certain receipts, disbursements and transfers to the appropriate accounts.

Recommendation – The City should implement procedures to ensure all receipts and disbursements are properly classified in the accounting records. In addition, to provide better financial information and control, the COA, or its equivalent, should be followed. Procedures should also be implemented to ensure all transactions are properly recorded on the accounting records.

Response – The City will implement this recommendation.

Conclusion – Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Earlham
Schedule of Findings
Year ended June 30, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the capital projects function. Chapter 384.20 of the Code of Iowa states, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Jeff Lillie, City Council/Mayor, Owner of Lillie Plumbing, Heating and Electric	Repairs and miscellaneous services	\$22,436

The transaction with Lillie Plumbing, Heating and Electric may represent a conflict of interest since it was more than \$2,500 and the City did not enter into the contract through competitive bid in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response – We will consult our Attorney in relation to this issue.

Conclusion – Response acknowledged.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) City Council Minutes - Transactions were found that we believe should have been approved in the Council minutes but were not.

Chapter 372.13(6) of the Code of Iowa requires the publication of the City Council minutes to include a list of all claims allowed. The City’s publications did not include all of the Special Revenue, Employee Benefits Fund claims as well as additional claims from other funds.

An instance was noted where one City Council minutes, and related claims, were not published within fifteen days of the City Council meeting. Chapter 372.13(6) of the Code of Iowa requires the City Council minutes, a summary of all receipts, total expenditures from each city fund, and all claims be published in the newspaper within fifteen days of the City Council meeting.

City of Earlham

Schedule of Findings

Year ended June 30, 2016

Recommendation – The City should publish all claims as required by the Code of Iowa. In addition, all minutes and related claims should be published timely, as required by the Code of Iowa.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Water Revenue Bonds – The following instances of non-compliance with the water revenue bond resolutions were noted:
- The water revenue bond resolutions require the City to establish a reserve fund of \$68,935 until the bonds are fully paid. The reserve fund balance at June 30, 2016 was \$56,678, which is deficient.
 - The water revenue bond resolutions require the City to make sufficient monthly transfers to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due. The City has established a water revenue bond sinking account; however, it was not funded as required.

Recommendation – The City should comply with the revenue bond requirements and maintain a balance in the reserve fund of \$68,935 until the bonds are fully paid. The City should also make transfers to the water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (9) Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in a Special Revenue Fund, and the LOST ballot requires the receipts to be used for capital projects. However, it appears the City used the LOST receipts to reimburse the Capital Projects Fund for some capital project costs which were incurred prior to the date the local option sales tax became effective in the City. As a result, the City may be using the LOST receipts for purposes which are not in compliance with the LOST ballot.

Recommendation – The City should consult with their attorney to ensure the City is in compliance with the local option sales tax ballot requirements.

Response – We will review this and take appropriate action.

Conclusion – Response acknowledged.

- (10) Financial Condition – At June 30, 2016, the City had deficit balances of \$41,751 and \$28,125 in the Debt Service and Capital Projects Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

City of Earlham
Schedule of Findings
Year ended June 30, 2016

Response – We will analyze this and attempt to bring the above funds to a positive balance in the future.

Conclusion – Response acknowledged.

- (11) Money Not Collected – The City has not collected \$12,000 from a lease, with the lease payments due to the City on April 1, 2015 and April 1, 2016.

Recommendation – The City should implement procedures to ensure all monies due to the City are identified and received on a timely basis.

Response – We are in the process of obtaining the \$12,000 from the lease.

Conclusion – Response acknowledged.

- (12) Payroll – During the year, City employees were paid \$2,309 in stipends for performing various activities. The stipends were treated as vendor payments rather than additional compensation. It is likely the Internal Revenue Service would treat these stipends as employee compensation with applicable payroll taxes required to be withheld.

No authorization could be located approving the summer employees wages.

Recommendation – The City should ensure all payments for services to City employees are accounted through the payroll system with applicable payroll taxes withheld and remitted to the Internal Revenue Service. In addition, all wage amounts should be approved prior to payment to the employees.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (13) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The City's Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City's records.

Recommendation – The City should ensure future Annual Financial Reports agree with the City's records.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (14) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification.

It appears the City certified \$71,441 in TIF Funds in excess of the amount of debt that is available to be paid from TIF Funds.

City of Earlham

Schedule of Findings

Year ended June 30, 2016

Recommendation – The City should consult TIF legal counsel to determine the disposition of these issues. The City should also ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa.

Response – We will consult with legal counsel regarding these issues.

Conclusion – Response acknowledged.

- (15) Annual Urban Renewal Report – The annual urban renewal report was approved and was certified to the Iowa Department of Management on or before December 1. However, we noted that the City's beginning and ending debt obligation balances do not agree with the City's general ledger or the City's records.

Recommendation – The City should ensure the balances reported on the Annual Urban Renewal Report agree to the City's records.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.